



Thrift Savings Plan

FUND

INFORMATION

March 2005

We're glad you asked . . .

. . . about the TSP investment funds. You're on your way to becoming an informed investor.

When you choose among the five funds, remember that **your investment allocation is the single most important factor** in determining the growth of your TSP account. As you read the fund descriptions, think about these points:

- ✓ **Consider both risk and return.** The F Fund (bonds) and the C, S, and I Funds (stocks) have higher potential returns than the risk-free G Fund (Government securities). But stocks and bonds also carry the risk of investment losses. On the other hand, investing entirely in the G Fund may not give you the returns you need to meet your savings goal.
- ✓ **You need to be comfortable with the amount of risk you expect to take.** Your investment comfort zone should allow you to use a “buy and hold” strategy so that you are not chasing market returns during upswings, or fleeing from certain funds during downswings.
- ✓ **You can reduce your overall risk by diversifying your account among the different TSP funds.** The five funds offer a broad range of investment options, including government securities, bonds, and domestic and foreign stocks. Generally, it's best not to put all your eggs in one basket.
- ✓ **The amount of risk you can sustain depends upon your investment time horizon.** The more time you have before you need to withdraw your account, the more risk you can take on. (This is because early losses can be offset by later gains.) As your time horizon shortens, you may need to modify your investment mix.
- ✓ **Periodically review your investment choices** and your account balance to make sure that the funds you chose are still appropriate for your situation. If not, rebalance your account to get the allocation you want.

For more information about TSP investment options, visit the Web site, www.tsp.gov. You can get recent and historical rates of return, use the calculators to estimate the effect of various rates of return on your account balance, and read *TSP Highlights* articles about investing.

Remember, there is no guarantee that future rates of return will match historical rates.



G FUND

Government Securities Investment Fund

Fund Information

Net Assets

as of December 31, 2004
\$58.8 billion

2004 Administrative Expense Ratio

.06% (6 basis points)
\$0.60 per \$1,000
account balance

Asset Manager

Federal Retirement
Thrift Investment Board

Returns

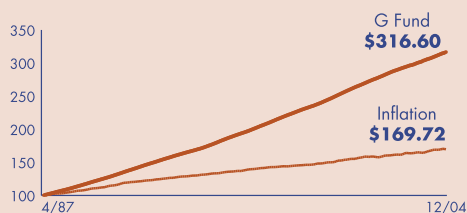
as of December 31, 2004

| | G Fund ¹ | G Fund-Related Securities ² |
|----------------------------------|---------------------|--|
| 1 Year | 4.3 | 4.4 |
| 5 Year | 5.0 | 5.0 |
| 10 Year | 5.7 | 5.8 |
| Since Inception April 1, 1987 | 6.7 | 6.8 |

¹After expenses ²Without deductions

Growth of \$100

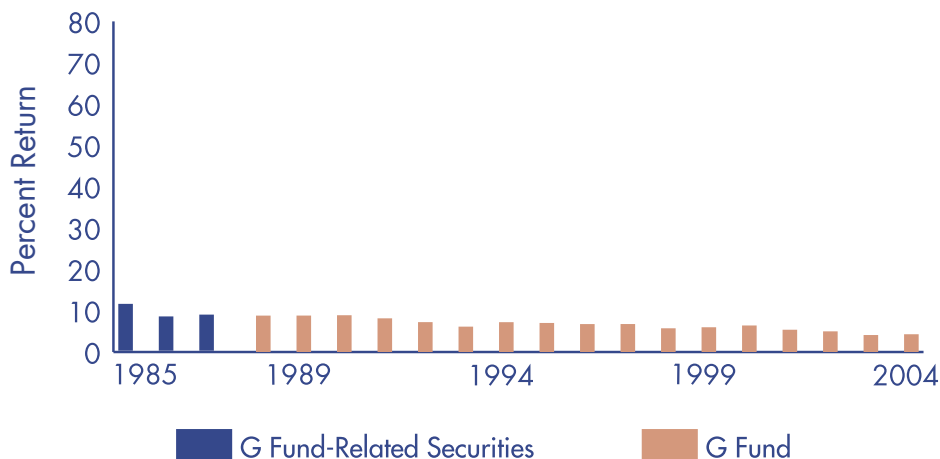
Since Inception



Key Features

- The G Fund offers the opportunity to earn rates of interest similar to those of long-term Government securities but without any risk of loss of principal and very little volatility of earnings.
- The objective of the G Fund is to maintain a higher return than inflation without exposing the fund to risk of default or changes in market prices.
- The G Fund is invested in short-term U.S. Treasury securities specially issued to the TSP. Payment of principal and interest is guaranteed by the U.S. Government. Thus, there is no "credit risk."
- Earnings consist entirely of interest income on the securities.
- Interest on G Fund securities has outpaced inflation and 90-day T-bills.

G Fund Returns* 1985–2004

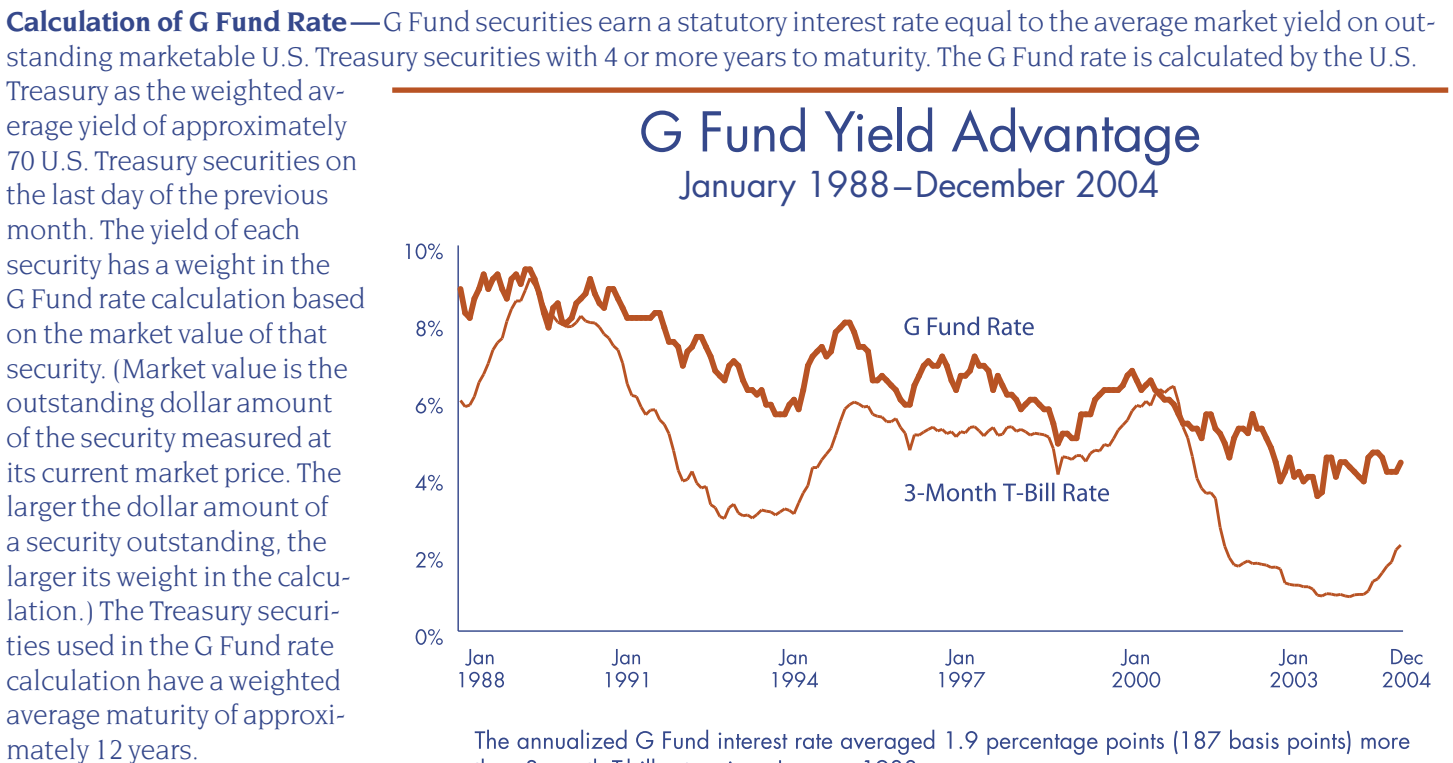


* For periods before the inception of the G Fund, the rate shown is the statutory rate (without deduction for administrative expenses).

G FUND FACTS

By law, the G Fund must be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. The G Fund investments are kept by electronic entries which do not involve any transaction costs to the TSP. The G Fund rate is set once a month by the U.S. Treasury based on a statutorily prescribed formula (described below), and all G Fund investments earn that interest rate for the month. (The G Fund rate is also used in other Government programs, such as the Social Security and Medicare trust funds and the Civil Service Retirement and Disability Fund.)

The Board invests the G Fund exclusively in short-term securities (with maturities ranging from 1 day to 4 days over holiday weekends), but the securities earn a long-term interest rate. Because the Federal Retirement Thrift Investment Board pursues its strategy of investing the G Fund in short-term securities, the value of G Fund securities does not fluctuate; only the interest rate changes. Thus, when the monthly G Fund interest rate goes up, G Fund earnings accrue faster; when the G Fund interest rate declines, G Fund earnings accrue more slowly.



The G Fund Yield Advantage—The G Fund rate calculation described above, along with the Board's policy of investing exclusively in short-term maturities, results in a long-term rate being earned on short-term securities. Because long-term interest rates are generally higher than short-term rates, G Fund securities usually earn a higher rate of return than do short-term marketable Treasury securities. In the chart above, the G Fund rate is compared with the rate of return on 3-month marketable Treasury securities (T-bills). From January 1988 through December 2004, the G Fund rate was, on average, 1.9 percentage points higher per year than the 3-month T-bill rate.



F FUND

Fixed Income Index Investment Fund

Fund Information

Net Assets

as of December 31, 2004
\$10.1 billion

2004 Administrative Expense Ratio

.05% (5 basis points)
\$0.50 per \$1,000
account balance

Number of Securities

3889

Average Duration

4.3 years

Average Coupon Rate

5.25%

Benchmark Index

Lehman Brothers U.S. Aggregate
bond index
www.lehman.com

Asset Manager

Barclays Global Investors

Returns

as of December 31, 2004

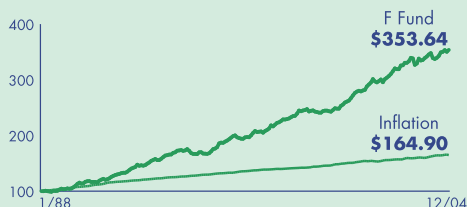
| | F Fund ¹ | LBA Index ² |
|-----------------|---------------------|------------------------|
| 1 Year | 4.3 | 4.3 |
| 5 Year | 7.7 | 7.7 |
| 10 Year | 7.7 | 7.7 |
| Since Inception | 7.7 | 8.1 |

Jan. 29, 1988

¹After expenses ²Without deductions

Growth of \$100

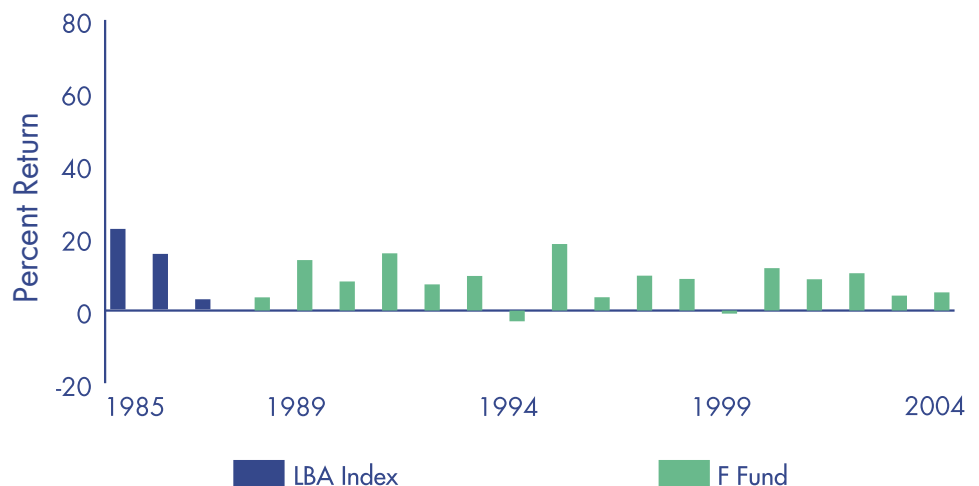
Since Inception



Key Features

- The F Fund offers the opportunity to earn rates of return that exceed those of money market funds over the long term (particularly during periods of declining interest rates), with relatively low risk.
- The objective of the F Fund is to match the performance of the Lehman Brothers U.S. Aggregate (LBA) index, a broad index representing the U.S. bond market.
- The risk of nonpayment of interest or principal (credit risk) is relatively low because the fund includes only investment-grade securities and is broadly diversified. However, the F Fund has market risk (the risk that the value of the underlying securities will decline) and prepayment risk (the risk that the security will be repaid before it matures).
- Earnings consist of interest income on the securities and gains (or losses) in the value of securities resulting from changing market interest rates.

F Fund Returns* 1985–2004



* For periods before the inception of the F Fund, the rate shown is the return of the LBA index (without deduction for management fees, trading costs, and administrative expenses).

F FUND FACTS

By law, the F Fund must be invested in fixed-income securities. The Federal Retirement Thrift Investment Board has chosen to invest the F Fund in an index fund that tracks the Lehman Brothers U.S. Aggregate (LBA) index, a broadly diversified index of the U.S. bond market.

The **LBA index** consists of high quality fixed-income securities with maturities of more than one year. The index represents the U.S. Government, mortgage-backed securities, corporate, and foreign government sectors of the U.S. bond market.

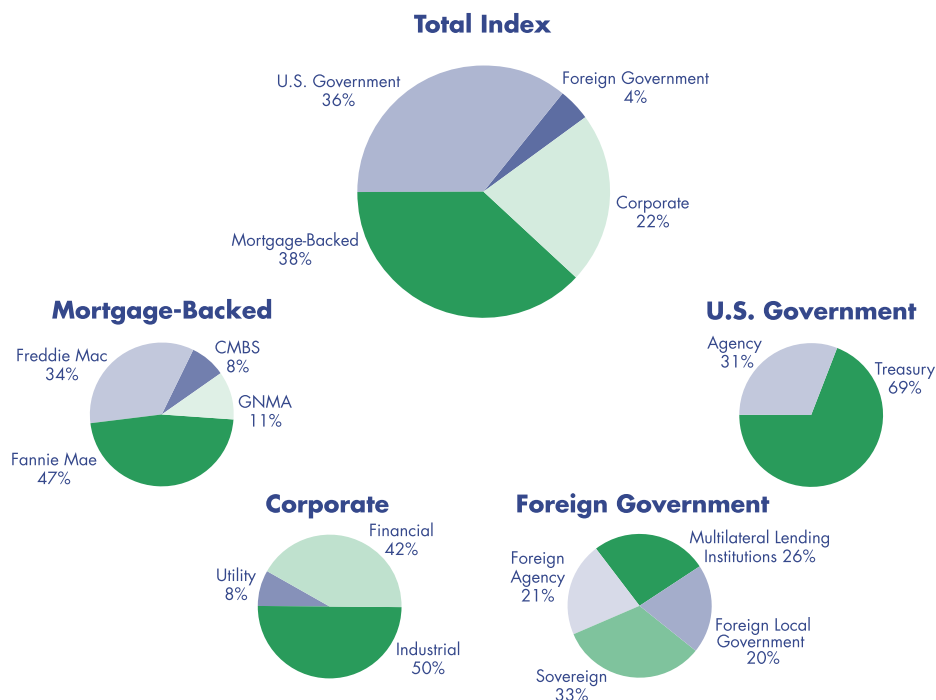
On December 31, 2004, the LBA index included 5,836 notes and bonds. The average LBA index coupon rate was 5.24%, which means that, on an annual basis, interest income equalled approximately 5.24% of the face value of the securities in the LBA index. The average duration of the LBA index was 4.3 years, which means that a 1% increase (decrease) in interest rates could be expected to result in a 4.3% decrease (increase) in the price of the security. New issues are added continuously to the LBA index, and older issues drop out as they reach maturity.

Barclays U.S. Debt Index

Fund—The F Fund is invested in the Barclays U.S. Debt Index Fund. Because the LBA index contains such a large number of securities, it is not feasible for the Barclays U.S. Debt Index Fund to invest in each security in the index. Instead, Barclays selects a representative sample of the various types of mortgage-backed, U.S. Government, corporate, and foreign government securities included in the overall index. Within each sector, Barclays selects securities that, as a whole, are designed to match important index characteristics such as duration, yield, and credit rating. The performance of the U.S. Debt Index Fund is evaluated on the basis of how closely its returns match those of the LBA index.

The F Fund invests in the Barclays U.S. Debt Index Fund by purchasing shares of the Barclays U.S. Debt Index Fund “E,” which in turn holds shares of the Barclays U.S. Debt Index Master Fund. As of December 31, 2004, F Fund holdings constituted \$9.7 billion of the U.S. Debt Index Master Fund, which itself held \$26.3 billion in securities.

LBA Index Bond Market Sectors December 31, 2004





C FUND

Common Stock Index Investment Fund

Fund Information

Net Assets
as of December 31, 2004
\$65.7 billion

2004 Administrative Expense Ratio

.06% (6 basis points)
\$0.60 per \$1,000
account balance

Benchmark Index

Standard & Poor's 500
stock index
www.standardandpoors.com

Asset Manager

Barclays Global Investors

Returns

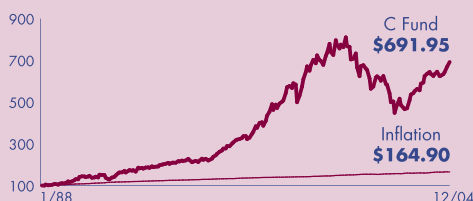
as of December 31, 2004

| | C Fund ¹ | S&P 500 Index ² |
|---------------------------------|---------------------|----------------------------|
| 1 Year | 10.8 | 10.9 |
| 5 Year | -2.3 | -2.3 |
| 10 Year | 12.0 | 12.1 |
| Since Inception Jan 29, 1988 | 12.1 | 12.4 |

¹After expenses ²Without deductions

Growth of \$100

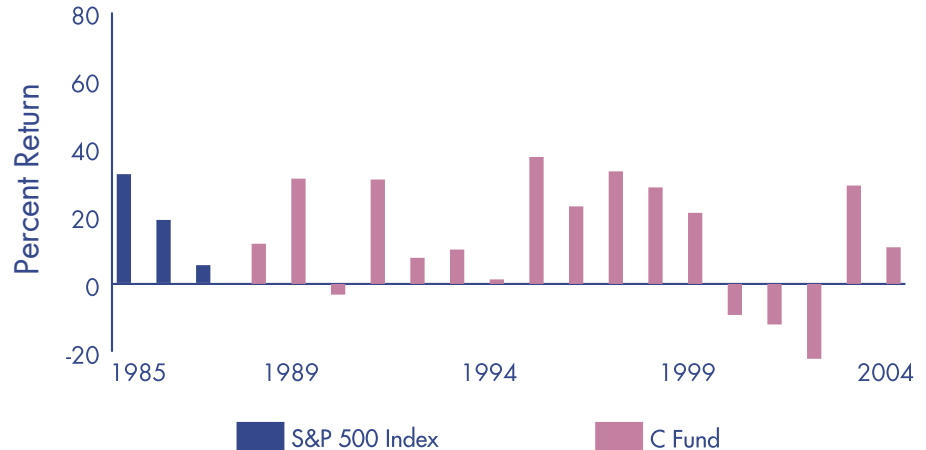
Since Inception



Key Features

- The C Fund offers the opportunity to earn a potentially high investment return over the long term from a broadly diversified portfolio of stocks of large and medium-size U.S. companies.
- The objective of the C Fund is to match the performance of the S&P 500 index, a broad market index made up of stocks of 500 large to medium-size U.S. companies.
- There is a risk of loss if the S&P 500 index declines in response to changes in overall economic conditions (market risk).
- Earnings consist of gains and losses in the prices of stocks, and dividend income.

C Fund Returns* 1985-2004



* For periods before the inception of the C Fund, the rate shown is the return of the S&P 500 index (without deduction for management fees, trading costs, or administrative expenses).

S&P 500 Top Ten

| Company | Percent of Index |
|---------------------------------|------------------|
| General Electric | 3.42 |
| Exxon Mobil Corporation | 2.93 |
| Microsoft Corporation | 2.57 |
| Citigroup, Inc. | 2.22 |
| Wal-Mart Stores, Inc. | 1.98 |
| Pfizer, Inc. | 1.79 |
| Bank of America Corporation | 1.68 |
| Johnson & Johnson | 1.67 |
| American International Group | 1.52 |
| International Business Machines | 1.45 |

C FUND FACTS

By law, the C Fund must be invested in a portfolio designed to replicate the performance of an index that includes stocks representing the U.S. stock market. The Federal Retirement Thrift Investment Board has chosen as its benchmark the S&P 500 index, which tracks the performance of major U.S. companies and industries.

The **S&P 500 index** is an index of 500 large to medium-size U.S. companies that are traded in the U.S. stock markets. The index was designed by Standard & Poor's Corporation (S&P) to provide a representative measure of U.S. stock market performance. As of December 31, 2004, 493 common stocks and 7 real estate investment trusts (REITs) were included in the index. (REITs accounted for 0.6 percent of the index's market value.) The companies in the index represented 113 separate industries classified into the 10 major industry groups shown in the chart. The S&P 500 index made up 78% of the market value of the U.S. stock markets.

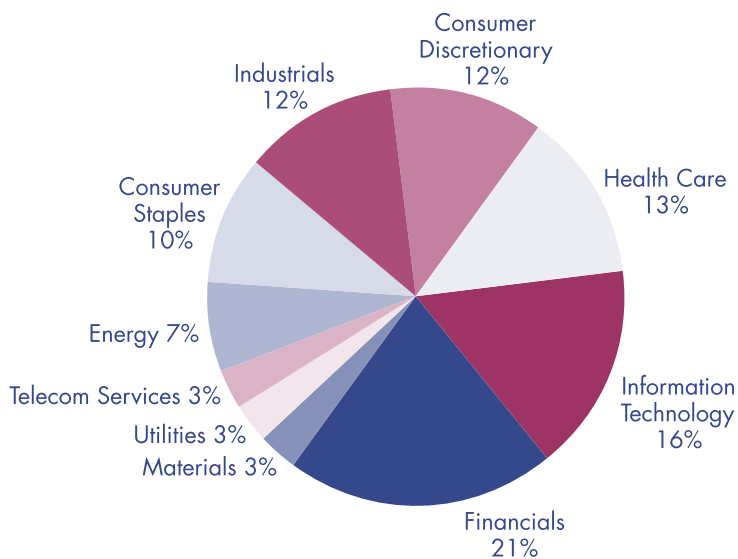
The S&P 500 is considered a "big company" index. As of December 31, 2004, the largest 100 companies in the S&P 500 represented 66% of the index's market value. Currently, the S&P 500 index is weighted by full market capitalization. A company's weighting in the index is the total market value of the company (that is, the share price multiplied by the total number of shares outstanding) as a percentage of the combined market value of all companies in the index. During

2005, the S&P 500 index will move to a float-adjusted market capitalization, in which a company's market value and its weighting in the index are calculated using the number of shares that are freely traded, rather than all outstanding shares. Shares that are not freely traded, such as the holdings of controlling shareholders and their families, company management, and other companies, are excluded from the calculation.

Barclays Equity Index Fund — The C Fund is invested in the Barclays Equity Index Fund. The C Fund holds all the stocks included in the S&P 500 index in virtually the same weights that they have in the index. The performance of the Equity Index Fund is evaluated on the basis of how closely its returns match those of the S&P 500 index. A portion of Equity Index Fund assets is reserved to meet the needs of daily client activity. This liquidity reserve is invested in S&P 500 index futures contracts.

The C Fund invests in the Barclays Equity Index Fund by purchasing shares of the Barclays Equity Index Fund "E," which in turn holds primarily shares of the Barclays Equity Index Master Fund. As of December 31, 2004, C Fund holdings constituted \$63.2 billion of the Equity Index Master Fund, which itself held \$124.0 billion of securities.

S&P 500 Index Major Industry Groups December 31, 2004





S FUND

Small Capitalization Stock Index Investment Fund

Fund Information

Net Assets

as of December 31, 2004
\$10.0 billion

2004 Administrative Expense Ratio

.06% (6 basis points)
\$0.60 per \$1,000
account balance

Benchmark Index

Dow Jones Wilshire 4500 Completion
stock index
www.wilshire.com or
www.djindexes.com

Asset Manager

Barclays Global Investors

Returns

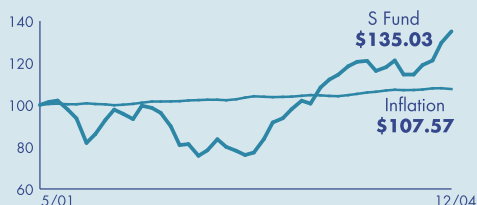
as of December 31, 2004

| | S Fund ¹ | DJW 4500 Index ² |
|--------------------------------|---------------------|-----------------------------|
| 1 Year | 18.0 | 18.1 |
| 5 Year | N/A | 1.3 |
| 10 Year | N/A | 11.9 |
| Since Inception May 1, 2001 | 8.5 | 8.8 |

¹After expenses ²Without deductions

Growth of \$100

Since Inception



Key Features

- The S Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of small and medium-size U.S. companies.
- The objective of the S Fund is to match the performance of the Dow Jones Wilshire 4500 Completion (DJW 4500) index, a broad market index made up of stocks of U.S. companies not included in the S&P 500 index.
- There is a risk of loss if the DJW 4500 index declines in response to changes in overall economic conditions (market risk).
- Earnings consist of gains and losses in the prices of stocks, and dividend income.

S Fund Returns* 1985–2004



* For periods before the inception of the S Fund, the rate shown is the return of the DJW4500 index (without deduction for management fees, trading costs, or administrative expenses).

DJW 4500 Top Ten

Company

Percent of Index

| | |
|---|------|
| Berkshire Hathaway, Inc. (Class A stock) | 3.08 |
| Liberty Media Corporation (Class A stock) | 0.97 |
| Genentech, Inc. | 0.86 |
| The DIRECTV Group, Inc. | 0.52 |
| IAC InterActiveCorp | 0.47 |
| Juniper Networks, Inc. | 0.46 |
| Amazon.com, Inc. | 0.44 |
| Sirius Satellite Radio, Inc. | 0.33 |
| Kraft Foods, Inc. (Class A stock) | 0.31 |
| Vornado Realty Trust | 0.30 |

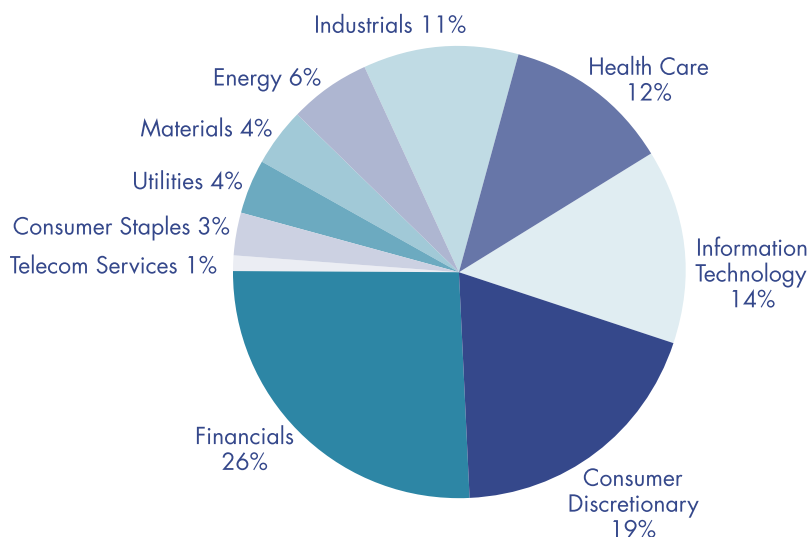
S FUND FACTS

By law, the S Fund must be invested in a portfolio designed to replicate the performance of an index of U.S. common stocks, excluding those that are held in the C Fund. The Federal Retirement Thrift Investment Board has chosen, as its benchmark, the Dow Jones Wilshire 4500 Completion index, which tracks the performance of the actively traded non-S&P 500 stocks in the U.S. stock market.

The **Dow Jones Wilshire 4500 Completion index (DJW 4500 index)** is an index of all actively traded U.S. common stocks and real estate investment trusts (REITs) that are not included in the S&P 500 index. The index is designed to be the broadest measure of the non-S&P 500 domestic stock markets. As of December 31, 2004, the index included 4,493 common stocks and 223 REITs. (REITs accounted for 7.8% of the index's market value.) The DJW 4500 index made up 22% of the market value of the U.S. stock markets; the S&P 500 accounted for the other 78%. Thus, the S Fund and the C Fund combined cover virtually the entire U.S. stock market.

The DJW 4500 index is weighted by float-adjusted market capitalization, in which a company's market value and its weighting in the index are calculated using the number of shares that are freely traded, rather than all outstanding shares. Shares that are not freely traded, such as the holdings of controlling shareholders and their families, company management, and other companies, are excluded from the calculation. A company's weighting in the index is the float-adjusted market value of the company (that is, the share price multiplied by the number of freely traded shares outstanding) as a percentage of the combined float-adjusted market value of all companies in the index. As of December 31, 2004, the largest 100 companies in the DJW 4500 index represented 24% of the index's market value.

DJW 4500 Index Major Industry Groups December 31, 2004



Barclays Extended Market Index Fund — The S Fund is invested in the Barclays Extended Market Index Fund. The DJW 4500 index contains a large number of stocks, including illiquid stocks with low trading volume and stocks with prices less than \$1.00 per share. Therefore, it is not practical for the Barclays Extended Market Index Fund to invest in every stock in the index. The Barclays fund holds the stocks of most of the companies in the index with market values greater than \$1 billion. However, a mathematical sampling technique is used to select among the smaller stocks. Barclays' mathematical model considers size and industry group to match the industry weights in the index. Within each industry group, Barclays selects stocks that, together, are expected to produce a return that is very close to the industry's return in the DJW 4500 index. The performance of the Extended Market Index Fund is evaluated on the basis of how closely its returns match those of the DJW 4500 index. A portion of Extended Market Index Fund assets is reserved to meet the needs of daily client activity. This liquidity reserve is invested in futures contracts of the S&P 400 and Russell 2000 (other broad equity indexes).

The S Fund invests in the Barclays Extended Market Index Fund by purchasing shares of the Barclays Extended Market Index Fund "E," which in turn holds primarily shares of the Barclays Extended Market Index Master Fund. As of December 31, 2004, S Fund holdings constituted \$9.6 billion of the Extended Market Index Master Fund, which itself held \$14.8 billion in securities.



I FUND

International Stock Index Investment Fund

Fund Information

Net Assets

as of December 31, 2004
\$7.3 billion

2004 Administrative Expense Ratio

.06% (6 basis points)
\$0.60 per \$1,000
account balance

Benchmark Index

Morgan Stanley Capital
International EAFE
stock index
www.msci.com

Asset Manager

Barclays Global Investors

Returns

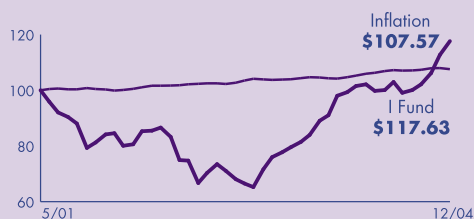
as of December 31, 2004

| | I Fund ¹ | EAFE Index ² |
|--------------------------------|---------------------|-------------------------|
| 1 Year | 20.0 | 20.2 |
| 5 Year | N/A | -1.1 |
| 10 Year | N/A | 5.6 |
| Since Inception May 1, 2001 | 4.5 | 4.9 |

¹After Expenses ²Without Deductions

Growth of \$100

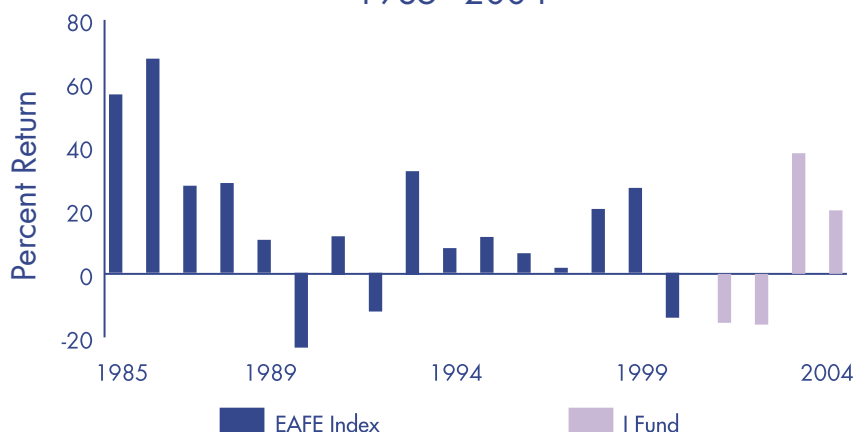
Since Inception



Key Features

- The I Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of companies in developed countries outside the U.S.
- The objective of the I Fund is to match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) index, a broad international market index, made up of stocks of companies in 21 developed countries.
- There is a risk of loss if the EAFE index declines in response to changes in overall economic conditions (market risk) or in response to increases in the value of the U.S. dollar (currency risk).
- Earnings consist of gains and losses in the prices of stocks, currency changes relative to the U.S. dollar, and dividend income.

I Fund Returns* 1985-2004



* For periods before the inception of the I Fund, the rate shown is the return of the EAFE index (without deduction for management fees, trading costs, or administrative expenses).

EAFE Top Ten

| Company | Percent of Index |
|-------------------------------|------------------|
| BP | 2.36 |
| HSBC Holdings (GB) | 2.08 |
| Vodafone Group | 2.00 |
| GlaxoSmithKline | 1.54 |
| Total | 1.43 |
| Novartis | 1.34 |
| Royal Dutch Petroleum Company | 1.34 |
| Toyota Motor Corporation | 1.31 |
| Nestlé | 1.18 |
| Royal Bank of Scotland | 1.18 |

I FUND FACTS

By law, the I Fund must be invested in a portfolio designed to track the performance of an index of common stocks, representing international stock markets outside of the United States. The Federal Retirement Thrift Investment Board has chosen as its benchmark the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) index, which tracks the overall performance of the major companies and industries in the European, Australian, and Asian stock markets.

A significant component of the returns on the EAFE index (and the I Fund) results from changes in the value of the U.S. dollar relative to the currencies of the countries represented in the index. For example, the EAFE index earned 20.2% in 2004, but part of that return reflected a decline in the value of the U.S. dollar (which increased the return). If the value of the dollar had been unchanged during 2004, the return would have been 12.7%.

The **EAFE index**, designed by Morgan Stanley Capital International (MSCI), is an index of the equity markets of the developed world outside of the United States and Canada. It is the most widely used international stock index. As of December 31, 2004, the index covered the equity markets of 21 countries, as shown in the table.

The companies in the EAFE index are large companies. The index is weighted by float-adjusted market capitalization, in which a company's market value and its weighting in the index are calculated using the number of shares that are freely traded, rather than all outstanding shares. Shares that are not freely traded, such as the holdings of controlling shareholders and their families, company management, and other companies, are excluded from the calculation. Also excluded are shares subject to foreign ownership limitations imposed by governments or companies. Within each country, a company's weighting is the float-adjusted market value of the company (that is, the share price multiplied by the number of freely traded shares outstanding) as a percentage of the combined float-adjusted market value of all companies in the index. Similarly, a country's weighting in the EAFE index is the float-adjusted market value of its stock market as a percentage of the combined float-adjusted market value of all stock markets included in the EAFE index.

Barclays EAFE Index Fund—The Barclays fund holds common stocks of all the companies represented in the EAFE index in virtually the same weights that they have in the index. The return on the Barclays fund (and on the I Fund) will differ from that of the EAFE index on days when Barclays makes a “fair valuation” adjustment to reprice the securities held by the fund. Fair valuation adjustments are made on days when there are large movements in either U.S. equity markets or exchange rates after the foreign markets have closed. Fair valuation prevents traders from “market timing” by making investment decisions based on “stale” prices, thus diluting the returns of other TSP participants who invest in the I Fund.

The performance of the EAFE index fund is evaluated on the basis of how closely its returns match those of the EAFE index, without the effect of fair valuation. A portion of EAFE Index Fund assets is reserved to meet the needs of daily client activity. This liquidity reserve is invested in futures contracts on the local stock indexes of the countries in the EAFE index. These include the United Kingdom's FTSE 100, Germany's DAX, France's CAC 40, Australia's ALL ORDS, Japan's Nikkei 300, and Hong Kong's Hang Seng.

The I Fund invests in the Barclays EAFE Index Fund by purchasing shares of the Barclays EAFE Index Fund “E,” which in turn holds primarily shares of the Barclays EAFE Index Master Fund. As of December 31, 2004, I Fund holdings constituted \$7.0 billion of the EAFE Index Master Fund, which itself held \$42.5 billion of securities.

EAFE Index Country Composition December 31, 2004

| Country | Percent of Total Value of Index | Number of Companies |
|-----------------------------|---------------------------------|---------------------|
| Europe | | |
| Austria | 0.4 | 13 |
| Belgium | 1.3 | 21 |
| Denmark | 0.8 | 20 |
| Finland | 1.4 | 19 |
| France | 9.4 | 57 |
| Germany | 7.0 | 47 |
| Greece | 0.6 | 20 |
| Ireland | 0.9 | 15 |
| Italy | 4.3 | 41 |
| Netherlands | 4.8 | 26 |
| Norway | 0.6 | 14 |
| Portugal | 0.4 | 10 |
| Spain | 4.1 | 32 |
| Sweden | 2.5 | 44 |
| Switzerland | 6.8 | 35 |
| United Kingdom | 25.0 | 152 |
| Europe | 70.3 | 566 |
| Australasia/Far East | | |
| Australia | 5.1 | 71 |
| Hong Kong | 1.7 | 38 |
| Japan | 21.9 | 344 |
| New Zealand | 0.2 | 16 |
| Singapore | 0.8 | 35 |
| Australasia/Far East | 29.7 | 504 |
| Total EAFE Index | 100% | 1070 |

Source: Morgan Stanley Capital International